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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1994

* An annex contains follow-up actions to implement the Board's recommendations for 1993 as well as the comments of the Board thereon.

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Table of Contents

	Paragraphs
Introduction	1 - 7
Follow-up on actions taken on previous audit recommendations	8
Summary of recommendations	9
Summary of main findings	10 - 31
Part I: Financial Statements	
United Nations System Accounting Standards	32 - 35
Liquidity position	36 - 39
Investment	40 - 41
Pledges and Contributions	42
Outstanding Pledges	43
Unliquidated obligations	44 - 45
Receivables from other UN Agencies	46
Income Generating Activity	47
Write-off of losses of cash, receivables and property	48 - 50
Ex-gratia payments	51
Part II: Management issues	
Programme Management	
Role of Implementing Partners	52
Coordination of project documents at UNHCR Headquarters	53 - 54
Non-preparation of Work Plans	55 - 58
Delays in issue of Letters of Instruction	59

Table of Contents (continued)

Delays in signing of agreements	60 - 63
Agreements with implementing partners	64 - 66
Selection of implementing partners	67 - 68
Control on Implementing Agencies	
Inaccurate budget estimation and budgetary control	69 - 71
Non-furnishing of audited accounts and audit certificates	72 - 73
Deficiencies in maintenance of accounts	74 - 79
Reporting by Implementing Agencies	80 - 84
Overhead cost of implementing partners	85 - 90
Procurement	93
Annual purchasing plans	92 - 94
Market Survey	95 - 96
Frame agreements	97 - 100
Publicity for invitations to tenders	101 - 103
Vendor Performance Evaluation	104 - 106
Status of Receiving Reports	107 - 108
Procurement by field offices	
Payment of demurrage charges	109 - 110
Injudicious award of contract by an implementing partner	111 - 112
Inventory Management	113 - 119
Management of vehicles	120 - 124
Human Resources Management	
Training	125 - 129
Consultancy Services	130 - 133

Table of Contents (continued)

Travel Claims	134 - 136
Revenue-producing Activities	137 - 139
Internal Audit	140 - 142
Cases of Fraud and Presumptive Fraud	143
Acknowledgement	144
	Pages
Annex	30 - 35

Introduction

1. In accordance with paragraph 22 of the statute of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period 1 January 1994 to 31 December 1994. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit included a general review of financial systems and internal controls, and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements. It did not involve a detailed review of all aspects of budgetary and financial systems and the results cannot be regarded as a comprehensive statement on them.

3. The audit was carried out in the headquarters of the UNHCR at Geneva and in its Branch Offices at Bonn, Hanoi, Jakarta, Kuala Lumpur, Luanda, Manila, Maputo and Tokyo.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews concerned the extent of management control exercised by UNHCR on its implementing partners with reference to programme management, financial management and inventory control. The Board also reviewed the efficiency of the procurement system adopted by UNHCR headquarters and the Branch offices, financial management and personnel management.

5. The Board continued its practice of reporting the results of specific audits through management letters containing detailed observations and recommendations to the Administration. This practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

6. A summary of the main recommendations and findings is reported in paragraphs 9 to 31. The detailed findings of the audit are reported in paragraphs to 32 to 143.

7. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in this report were communicated to the UNHCR. The UNHCR has confirmed the facts on which the Board's observations and conclusions are based and provided explanations and answers to the Board's queries. The report is divided in two parts covering the audit of financial statements and management issues, respectively.

Follow-up on actions taken on previous audit recommendations

8. The Board has reviewed the measures taken by the Administration to implement the recommendations made in its report for the year 1993. Details of the actions taken and the comments of the Board are outlined in the annex to this report. Some of the issues covered have also been discussed in this report.

Summary of recommendations

9. The Board recommends that the following actions, in order of priority, should be taken:

Programme management

(a) A proper system of collection, recording and analysis of information regarding programme implementation should be established in the UNHCR headquarters early. This should be used to undertake more regular and periodical monitoring of the implementation of programmes and projects by the field offices and the implementing agencies (see para. 54);

(b) Programme planning should be strengthened to ensure that Letters of Instruction (LOIs) are issued in time and detailed work plans are prepared for all programmes and projects. It should also be ensured that precisely worded project and sub-project agreements are signed with implementing partners prior to the start of the projects (see paras. 58, 59, 63 and 66);

(c) UNHCR should be more selective in identifying the implementing partners and restrict their number to the optimum manageable level. Multiplicity of implementing agencies and overlapping of their functions should be avoided to ensure economy in overhead cost (see para. 68);

(d) UNHCR should ensure that all implementing agencies provide audited accounts, supported with audit certificates, from independent audit authorities (see para. 73);

(e) UNHCR should ensure that implementing partners maintain separate accounts for UNHCR funds. UNHCR should also develop an appropriate monitoring procedure to ensure compliance with its established requirements (see para. 79);

(f) UNHCR should review and strengthen the procedure for receipt of periodical project monitoring/sub-project monitoring reports from all implementing agencies. UNHCR should also ensure that programme managers take timely action to review such reports and initiate corrective actions (see para. 84);

Procurement

(g) Annual Purchasing Plans should cover a wide range of commonly used articles. All major user-offices should be involved in the preparation of such plans (see para. 94);

(h) Market survey mechanisms for collecting data regarding reliable sources of supply, trend of prices and the lead time required for the supply of materials should be strengthened. These should be made available to the requisitioning officers to enable better purchase planning (see para. 95);

(i) Suitable provisions should be included in the quotation requests to indicate the estimated quantities likely to be purchased so as to generate more competitive bids. Field offices should be authorized to operate on frame agreements, subject to quantity and budget restrictions (see paras. 98 and 103);

(j) Maximum publicity should be given through advertisements before finalizing frame agreements so that world-wide competition could be generated for bulk-purchase commodities (see para. 101);

(k) Transparent procedures should be established for regular vendor performance evaluation and vendor rating. Vendor lists should also be updated periodically (see para. 106);

Property Management

(l) Efforts should be made to implement the new asset management system as early as possible, and pending the same, suitable arrangements should be made to track and record all acquisitions of property in the existing system. UNHCR should ensure that all field offices/implementing partners maintain adequate records of properties and carry out periodical physical verification (see para. 119);

(m) The system of maintenance of inventory records, trip sheets, and monthly control registers in respect of vehicles should be improved by issuing clear instructions to the field offices and implementing partners. There should be regular analysis of the fuel consumption and repairs and maintenance expenditure to ensure that economy in expenditure is achieved (see para. 124);

Human Resources Management

(n) The number of training programmes and participants should be increased to meet the planned target. The course contents should be revised to cover topics closely related to job assignments. A larger share of the training slots should be earmarked for training of the personnel of the major implementing partners (see para. 129);

(o) Retrospective appointment of consultants should not be made except under exceptional circumstances. Performance of consultants should be evaluated at the end of each contract period against stipulated outputs (see para. 133);

(p) Staff members and consultants should be allowed, normally, only one travel advance. Subsequent advances should be permitted only after the earlier ones have been accounted for (see para. 136);

Financial management

(q) A proper procedure should be established for accounting, pricing of goods, and periodical stock verification of the public information materials sold through Public Information shops (see para 139);

(r) An investment committee should be established at the UNHCR headquarters to advise on long-term investments (see para. 40).

Summary of main findings

Financial position

10. While the liquidity position of UNHCR was favourable, the quick ratio (the ratio of quick assets, namely cash excluding non-convertible currencies and short term investments to current liabilities) cannot be considered as fully satisfactory. A review of the past unliquidated obligations indicated that the process of obligating funds was defective. The system of accounting for non-expendable properties and the transactions relating to the Public Information shop was also not satisfactory (see paras 37, 44, and 47).

Programme management

11. UNHCR's control over implementing partners was inadequate. In the absence of a proper system at the headquarters office to collect and review all relevant project agreements and project monitoring reports, the procedure of programme-monitoring was not effective (see para. 53).

12. There was widespread omission to prepare work plans by the field offices and by the implementing partners which adversely affected the implementation of projects and programmes even in critical areas (see paras. 56 to 58).

13. Delays in the issue of Letters of Instruction (LOIs) by UNHCR headquarters and the consequent delays in signing of agreements with the implementing partners made the latter unaware of their duties and obligations, as also the exact amount of financial commitments (see para. 60).

14. Inaccuracy in budget estimations by field offices and implementing partners resulted in wide variations between budget allotments and actuals (see para. 69).

15. Ambiguity in the agreements signed with some implementing partners led to additional claims (see paras. 65 to 66).

16. The selection of implementing partners was not judicious. There were multiple agencies operating in the same area, resulting in duplication of work and avoidable expenditures (see para. 67).

17. A number of implementing agencies did not furnish audited accounts and audit certificates from independent audit authorities as required (see para. 72).

18. The system of maintenance of accounting records, preparation of accounts and maintenance of cash and bank accounts by the various implementing partners in respect of UNHCR funds was unsatisfactory (see paras. 74 to 77).

19. The overhead cost of implementing partners was excessive and in the absence of any established norms, varied from country to country within the same region or even within the same country between different projects (see paras. 86 to 89).

Procurement

20. In the absence of information regarding the estimated quantities likely to be purchased, quotation requests for frame agreements were not comprehensive. In addition, adequate publicity was not given to quotation requests for frame agreements. (see para. 97, 98 and 101).

21. UNHCR did not have a proper system for vendor performance evaluation and vendor rating. Quotation requests and purchase orders were repeatedly placed with certain suppliers while other suppliers were not being invited to bid. (see para 104).

22. Receiving Reports were received only in 57 per cent of the purchase orders, which resulted in the non-availability of information regarding shipping and distribution of goods to the beneficiaries. (see para. 107).

23. In Mozambique, delays in the preparation of customs clearance documents, among other things, resulted in payment of demurrage charges of $123,021 in 11 months (see paras 109 and 112).

Property management

24. The date maintained on non-expendable property was incomplete and inaccurate. Physical verification reports due from many field offices were either not received or were received late. Discrepancies in stock accounts were not corrected in most cases and follow-up action to locate the missing items was wanting (see paras. 113 and 114).

25. Implementing agencies did not submit lists of inventories in time. In the Branch office, Kuala Lumpur, certain inventory supplied to an implementing partner was lying idle. In the Branch office, Mozambique, an implementing agency purchased certain non-expendable property for $194,101 but did not report the same to the Branch Office. Similar discrepancies and non-accounting of properties were noticed in other field offices also showing inadequate control of property (see paras. 115 to 118).

Management of vehicles

26. An implementing agency in Manila misused UNHCR funds to purchase raffle tickets which incidentally won them a car. The car was not taken into the inventory. UNHCR has since taken possession of the car to guard against possible disposal (see para. 122).

27. Inadequate maintenance of vehicle inventory and discrepancies in stock were noticed in the Branch Offices, Manila and Luanda. There were also omissions to maintain proper records and to review the rate of consumption of petrol and expenditure on repairs and maintenance (see paras. 120, 121 and 123).

Human Resources Management

28. The training output during the year in terms of number of programmes and number of participants fell short of the target (see para. 126).

29. Irregularities noticed in the appointment of consultants included retrospective appointments, appointments of consultants against regular assignments, omission to obtain evaluation reports on their performance and granting of continuous appointments without the required break in service (see paras. 131 and 132).

30. There were persistent delays in settlement of travel claims. Delays were also noticed in issue of travel authorizations. (see paras. 134 and 135).

Financial management

31. The accounts of the Public Information shop at headquarters were not maintained to show the gross revenue, expenditure and net revenue. No guidelines had been evolved for fixing of prices, nor were any data regarding non-moving and slow-moving items generated periodically. (see paras. 46 and 137)

Part I: Financial statements

United Nations System Accounting Standards

32. The financial statements and the schedules prepared by the Administration generally conform to the United Nations System accounting standards as approved by the General Assembly in Resolution 48/216C of 23 December 1993, except for the treatment of non-expendable items, disclosure of marketable securities and income generating activity.

33. Concerning the treatment of non-expendable items, the Board observed that:

(a) The cost of non-expandable property held as at 31 December 1994 and indicated as $80,039,131 in the financial statements does not include land and buildings.

(b) The earlier system of recording data on acquisition of non-expendable property was discontinued in September 1994 pending introduction of the new asset management system. Hence, the cost of non-expendable property disclosed in the financial statement is not complete/updated.

(c) The cost of non-expendable property of $80,039,131 shown in the financial statements does not include project-related purchases.

34. Concerning the disclosure of the marketable securities, the Board observed that the market value of investment in bonds issued by Kommunivest Sverige A.B. Sweden was only 97.25 per cent of its face value of $15 million as shown in the financial statements as at 31 December 1994.

35. According to the Accounting Standards, where an organization has some activities which are commercial in nature, it may be appropriate to apply the international accounting standards. The Board noted that this has not been followed in the case of sale of public information materials.

Liquidity position

36. Unlike in the previous year, the Administration has not provided a separate schedule indicating the liquidity position as at the end of the year since the Common Accounting Standards do not provide for the same. However, the final accounts for the current year include a statement of cash flow (Statement 4) which gives a comparative position of the assets and liabilities vis-à-vis those of 1993. In this context, it is recalled that a separate schedule for the liquidity position was included in the previous year's accounts in fulfilment of the directives given by the General Assembly in paragraph 21 of its Resolution 47/211 of 23 December 1992.

37. The liquidity position of UNHCR as at 31 December 1994 could be derived from the following table:

(In thousands of United States dollars)

ASSETS		LIABILITIES	
1. Cash in hand	20,239	7. Obligations for project	288,734
2. Cash in transit	2,193	8. Letter of Credit	280
3. Short term investments	248,346	9. Due to UNDP	-
4. Accounts receivable	371,910	10. Advance contributions	2,830
5. Deferred expenditure	116	11. Other payable	2,088
6. Total assets	642,804	12. Total liabilities	293,932

38. The Board considers that the liquidity ratio of 2.19:1 derived from the above table indicates a favourable financial position. However, the existing quick ratio of 0.91:1 should be improved further by more intensified efforts to realize receivable on account of outstanding pledges as also by concurrently regulating the obligations.

39. The Administration told the Board that they considered the quick ratio to be sound because the long-term deposit of $15 million was due for maturity in 11 months and an outstanding governmental pledge of $17 million, although classified as accounts receivable, would be available on call within five days. The Board,

however, considers that long-term deposits and cash held in non-convertible currencies ($3.299 million) should not be reckoned as quick assets.

Investment

40. As at 31 December 1994 UNHCR had short-term deposits of $212.909 million in different currencies, $15 million in long-term deposits and $35.436 million in call accounts. The average rate of interest earned during the year showed an improvement over the previous year by 1.04 per cent from 4.07 per cent in 1993 to 5.11 per cent in 1994. Some 39 per cent of the short-term deposits were held for duration of one month or less while 40 per cent of them were held for more than six months' duration, carrying, on the whole, a lesser rate of interest.

41. The Administration clarified that investment decisions are taken after establishing the current and long-term requirements. The Board, however, observed that UNHCR does not have an investment committee as required under the UN Financial Regulations and the guiding principles and policies for investment of the United Nations. The Board recommends that the Administration should establish an investment committee at the appropriate level for advising on long term investment.

Pledges and contributions

42. The total contributions shown as "paid" by the donors in respect of the various programmes and funds for the year 1994 amounted to $782,287,728 under the current year's account. This compared with $772,227,257 shown in the records of the Fund Raising Section as the total amounts received during the year. As the Administration had not reconciled the difference of $10,060,471 there was a possibility of overstatement of income.

Outstanding pledges

43. The pledges (in cash) pertaining to the previous years have been reduced from $194.151 million as at 31 December 1993 to $35.17 million at the end of 31 December 1994. However, realization of the current year's outstanding pledges needs to be given due attention since these have gone up from $168.147 million at the end of 1993 to $232.927 million as at the end of 1994.

Unliquidated obligations

44. The administration informed the Board that as a result of a review relating to the obligation process and budgeting techniques carried out in 1994, the percentage of outstanding obligations as compared to total obligations had come down from 31 per cent in 1993 to 19 percent in 1994 under all programmes. The Board, however, noted that over 14 per cent ($67.53 million) of the total outstanding obligations ($471.838) million for the period prior to 1 January 1994 remained unliquidated as at 31 December 1994. The Board noted that in 102 obligations test checked, no expenditure had been incurred at all in 1994 and consequently an amount of $48.86 million had to be cancelled. In another 51 projects, the cancellations exceeded the expenditure incurred by more than 50 per cent.

45. The Board reiterates the need for constant review of the process for obligating funds and better budgetary control. In this regard, the Board draws attention to its observations relating to budget variations and budgetary control in the field offices as contained in paragraphs 69 and 70 of this report.

Receivables from other UN agencies

46. (a) The Board had recommended in its report for the year ended 31 December 1993 that a suitable note should be attached to the financial statements to explain the position regarding receivables from/payables to UNDP pending reconciliation of balances. However, no such disclosure has been made in the accounts against the amount of $137,000 shown as receivable from UNDP.

(b) The balance sheet as at 31 December 1994 shows the amount due from United Nations Office, Geneva (UNOG) as $4,514,569; but the trial balance of UNOG, as verified by the Board, indicates the figure as $3,203,702. The difference of $1,310,867 has not been reconciled.

Income Generating Activity

47. The programme balance of Public Information (PI) materials, as at 31 December 1994 in the accounts of UNHCR shows an amount of $436,284. In the absence of any separate identification and allocation of expenditure attributable to the PI shop in the income and expenditure accounts and appropriate procedure for valuation and accounting of closing stock, the profit and loss position of this commercial activity could not be ascertained (see also paragraph 137 below).

Write-off of losses of cash, receivables and property

48. Cash and receivables amounting to $32,176 were written off during the year. The write-off included $6,135 lost from a field office due to inadequate safe-keeping arrangements and $2,306 being UNHCR's share of monies lost due to theft at the premises of an implementing partner.

49. Details of property written off during the year and the categories of losses as reported to the Property Survey Board by the field offices are given below:-

SI No.	Category	Value
		United States Dollars
a.	Civil disturbance/looting	no value given
b.	Hijacking (armed robbery)	82,023
c.	Theft	502,687
d.	Loss of property by UNHCR Staff members	7,880
e.	Items missing (inventory discrepancies)	12,230
f.	Fire or other circumstances	78,417
g.	Irreparable Telecommunications equipment	72,875
	Total purchase value of losses in 1994	**756,112**

50. The Board noted that the above list was not exhaustive since it did not include 118 items classified as office furniture valued at $69,700 and written off on the basis of a report submitted by the field office in Indonesia. The Board also noticed that the classification as "office furniture" in the above case was erroneous since the items written off included ambulances, medical and navigation equipment.

Ex-gratia payments

51. The Administration has reported that three ex-gratia payments amounting to $9,129 were made during the year in accordance with UNHCR financial rule 10.5.

Part II: Management issues

Programme management

Role of Implementing Partners

52. With the increasing demands on the Organization for humanitarian assistance to refugees, UNHCR relies heavily on implementing partners, mostly non-governmental organizations, to deliver the assistance to the needy. Under the programming procedures introduced in 1994, there is a gradual reduction in the level of programme details reviewed at UNHCR headquarters, while at the same time, field offices have greater flexibility in budgeting and management of programmes. It is, therefore, necessary to undertake detailed planning at the field level to formulate and implement the programmes as also to monitor and control the activities being carried out by the field offices and implementing partners through appropriate reporting and review procedures. The Board reviewed the level of control being exercised by UNHCR on implementing partners during its audit of UNHCR headquarters and selected field offices during the year, and concluded that there is considerable scope to improve the systems and procedures in this regard.

Coordination of project documents at the UNHCR Headquarters

53. The Board observed that UNHCR headquarters had not yet established an efficient system to collect all relevant project documents and monitoring reports, and to review them periodically with a view to ensuring efficient project/programme implementation. This deprived UNHCR headquarters of an effective management tool for monitoring and control of the programme activities. The Administration informed the Board that the existing system of maintaining project files by the Central Registry was being modified to record receipt of all sub-agreements and project/sub project reports on the FMIS financial system. They also proposed to decentralize the system to make the users responsible for the maintenance and retention of project records, which would be facilitated by the implementation of software on LAN.

54. The Board recommends that the proposed system of collection, recording and analysis of information regarding programme implementation should be established early. Further, UNHCR headquarters should undertake more regular monitoring of the implementation of the programmes/projects by field offices and implementing agencies to ensure optimum efficiency in programme implementation.

Non-preparation of work plans

55. Non-finalization of work plans prior to the commencement of the projects and programmes will hamper their smooth implementation and lead to inefficient utilization of resources. In 10 out of 12 projects selected at random at headquarters, work plans had not been prepared, as a result of which purchase orders for procurement of materials for implementation of the programmes were either issued late or had to be amended to provide for quantity and budget variations. The Board observed that the omission to prepare detailed work plans had affected the achievement of even priority programmes, such as crop production schemes in Angola and Mozambique.

56. In the Branch Office, Maputo, no work plans were prepared. The Management clarified that work plans could not be established for the programme years 1993 and 1994 due to the shortage of staff, but that they have been established for the year 1995, based on audit observations.

57. Implementing agencies under the Branch Office, Kuala Lumpur, never prepared work plans, as required in the UNHCR manual. Management confirmed that work plans have not traditionally been part of the Comprehensive Plan of Action (CPA) project implementation in Malaysia.

58. The Board is of the view that even in respect of projects with variables and contingencies, preparation of work plans is essential since work plans would not only assist Management to plan and monitor welfare programmes in a more systematic and economical manner, but would also help in proper evaluation of the programmes. The Board, therefore, recommends that UNHCR should ensure preparation of work plans giving complete details including project description, technical data, wherever necessary and item-wise requirement of each activity and sub-activity as provided in the UNHCR manual.

Delays in issue of Letters if Instruction

59. During the audit of UNHCR headquarters, the Board noted that in a number of cases, inadequate project planning had resulted in the issue of incomplete Letters of Instruction (LOI) or belated issue of LOIs beyond the start of the projects. There were also frequent revisions and amendments to LOIs and the budget allocations. In clarifying , the Administration stated that they were considering how the whole process could be replaced by a simpler and more streamlined procedure. The Board welcomes the initiative taken by the Administration in this regard and would reiterate its earlier recommendations about the need for more intensive programme planning by UNHCR headquarters to avoid these deficiencies.

Delays in signing of agreements

60. The Board had observed in its report for the year ending 31 December 1993 that there were endemic delays in signing of agreements with implementing partners. Since then, the position had not improved. As the agreements/sub-agreements constitute the

legal instruments defining the responsibilities of the implementing agencies, delays in executing such agreements by UNHCR affect the extent of control that could be exercised over the agencies, and create uncertainties about mutual obligations.

61. In the Branch Office, Mozambique, a large number of projects and sub-agreements were signed with the implementing partners after a lapse of considerable time from the start of the project, and in some cases, even after completion of the sub-projects. In one case, the delay in signing the sub-agreements with the implementing partner had necessitated scaling down the programme by 38 per cent approximately for the years 1993 and 1994; in another, the implementing agency erroneously paid inadmissible family subsistence allowance to 70 refugee families living outside the camp, though under the sub-agreements signed in March 1994, only a smaller monthly allowance was payable.

62. In the Branch Office, Kuala Lumpur and Manila also there were delays in signing agreements with implementing partners.

63. The Board considers that by adequate planning and control, it should be possible for the Administration to ensure that agreements are signed with the implementing partners sufficiently well before the start of the projects. The Board, therefore, suggests that programme planning should be strengthened to ensure the signing of agreements/sub-agreements in advance of the start of projects.

Agreements with implementing partners

64. It is essential that agreements with implementing agencies clearly establish their duties and responsibilities, ahead of the start of each project. Overlapping agreements with different agencies operating in the same field and area cause duplication of work and additional expenditure.

65. The Branch Office, Manila, had identified an agency set up by the local Administration as the main implementing partner to administer two Indo-Chinese refugee camps. However, the Branch Office signed three separate sub-project agreements with the Administrators of these camps, each representing a different agency though relief activities were undertaken by them jointly. The arrangement resulted in duplication of work, maintenance of separate bank accounts by each of them, additional overheads, and more important, deficiencies in monitoring and control.

66. In the Branch Office, Kuala Lumpur, an implementing agency had disputed the separation benefits paid by UNHCR to its staff members, and demanded and additional amount of $12.2 million. A similar claim for $93,000 had been raised by another agency in Cambodia. Since such claims result in additional and unintended financial obligations and often indeterminate liabilities, the Board recommends that precise legal agreements to establish mutual rights and obligations should be signed with all implementing agencies.

Selection of implementing partners

67. In order to have proper control on programme implementation, and to restrict the overhead cost, it is essential to limit the number of implementing partners to a viable and manageable level. The Board, however, noted that there is no uniform policy in this regard. For instance in the Branch Office, Manila, there were as many as ten implementing agencies, three of them set up as ad hoc bodies by the local Administration and one to represent the Military Administration, to manage the four ongoing projects under implementation. Similarly, in the Branch Office, Tokyo, there were seven agencies implementing care and maintenance and counselling programmes for the benefit of only 194 refugees in 1994. One such implementing partner in Tokyo, had just two refugees under its care. In both Manila and Tokyo, the programme delivery cost per case load was high, partly due to the multiplicity of implementing partners.

68. The Board, therefore, recommends that UNHCR should be more selective in identifying the implementing agencies and restrict their number to a manageable level so as to reduce the overhead cost.

Control on implementing Agencies

Inaccurate budget estimation and budgetary control

69. The Board examined the accuracy of budget estimates in the various field offices. In five field offices visited, there were large variations in the utilizations of budgetary allocations. Actual expenditure disclosed significant over and under utilization of allotments, reflecting inaccurate budget estimations and, to some extent, inadequate budgetary control.

70. The Board is aware of the uncertainties and unpredictable nature of caseloads in respect of many operations undertaken by UNHCR. At the time, the Board considered that those field offices were not giving adequate attention to establishing budget estimates on a sufficiently reliable basis and by correlation with available data. The Board is of the view that there is considerable scope for improvement by better interaction with the implementing partners. Moreover, budget formulation should be based on work plans and project schedules, taking into account more realistic estimations of caseloads.

71. The Board recommends that field offices should be required to exercise effective control on budget estimation and utilization by the implementing partners.

Non-furnishing of audited accounts and audit certificates

72. In four field offices, a number of implementing agencies did not furnish audited accounts and audit certificates to UNHCR, as required. The Branch Office, Bonn, had specifically excluded the provision regarding submission of audit certificates from the agreement signed with the implementing partners. The Branch Office, Tokyo, had received no audit certificates from implementing partners since

1979, and the Branch Office in Kuala Lumpur had received none since 1991. The Branch Office, Maputo had received audit certificates for only 3 out of 10 sub-projects completed in 1993.

73. The Board considers that the independent audit of projects is an important control over funds dispensed to third parties. The Board is, therefore, keeping thi matter under review. Meanwhile the Board recommends that UNHCR should insist that all implementing agencies provide audited accounts and audit certificates issued by independent audit authorities. The Administration has indicated that they would see to establish more appropriate criteria for the audit of the implementing partners.

Deficiencies in maintenance of accounts

74. Three implementing agencies under the Branch Office, Mozambique, did not maintain proper accounting records such as separate bank accounts, bank reconciliation statements and separate accounts for recording payment of taxes and duties to facilitate claims for re-imbursements. Moreover, there were instances of payments made to persons other than those noted on records and payment of higher amounts than those recorded on invoices. Also, in one case, the sub-project account had been debited with payments for repairs of private vehicles.

75. In the Branch Office, Luanda and Bonn, the implementing partners did not maintain detailed accounts and supporting documents in their local office and, as a result, it was not possible to verify the correctness of expenditures incurred by them.

76. In the Branch Office, Kuala Lumpur, an implementing agency had deposited all receipts, including remittances from UNHCR as well as miscellaneous income, in non-interest bearing deposit accounts and without UNHCR's approval, had withdrawn the miscellaneous receipts of RM 11,74,300 ($462,300 approximately) accruing from 1991 to 1993.. Another agency had invested certain UNHCR funds in Government Bonds and fixed deposits; but did not credit any interest accrued to the UNHCR accounts.

77. In the Branch Office, Tokyo, one agency had retained the interest received out of UNHCR funds equivalent to $292 (Y29,118) in its own account without crediting th same to the project account. This was also done by three implementing agencies in the Branch Office, Manila, who retained Pesos 3,300,000 ($128,500 approximately) in interest earned on UNHCR funds. Furthermore, the implementing agencies under this office maintained several bank accounts contrary to the established procedure and used such accounts to include transactions relating to other sources of funding. This made maintenance and verification of UNHCR accounts difficult.

78. On the whole, the Boards examination of the accounts maintained by the various implementing partners of UNHCR indicated that there were significant deficiencies i the maintenance of accounting records, preparation of accounts and maintenance of cash and bank accounts. The Branch Offices did not exercise adequate control over implementing partners.

79. The Board recommends that UNHCR should enforce the requirement of implementing partners to maintain separate accounts for UNHCR funds. In the regard, UNHCR headquarters should develop an appropriate monitoring procedure.

Reporting by implementing agencies

80. The Administration of UNHCR depends on the submission of timely reports by the implementing partners in order to review and monitor the progress of delivery of assistance to the beneficiaries. In view of this, the project agreements and sub-agreements provide for regular and periodical submission of project monitoring reports (PMR) and sub-project monitoring reports (SPMR). Failure to submit these reports or their late or incomplete submission precludes the Administration from carrying out any effective and meaningful review of project implementation.

81. There were delays ranging from 5 months to 18 months in submission of SPMRs by the implementing agencies for the sub-projects taken up from 1992 to 1994, under the Mozambican Repatriation Programme. In the Branch Office, Luanda, the lack of control on the implementing partners led to a situation in which a programme with a total obligated amount of $100,000 and authorized disbursement of $400,000 had to be upgraded ex-post facto, after UNHCR was informed that the expenditure was in excess of $700,000.

82. In the Branch Offices, Manila, UNHCR field officers did not cross-check Daily Survey Reports or reports of issue of materials provided by the implementing agencies. Moreover, there were discrepancies in the figures of beneficiaries estimated by different working groups catering to the refugee population. A test check disclosed that actual food received and distributed in the camp was less than the quantities claimed by implementing agencies by 12 to 30 per cent, suggesting considerable overpayments.

83. The Administration agreed that food expenditure was probably being overstated. They also informed the Board that following a thorough review of the receipt and distribution of food commodities, UNHCR field monitoring had been strengthened. In addition, as a result of the review, the Administration was able to reduce the food budget allocations for both implementing agencies.

84. The Board welcomes the action taken by the Administration on its recommendations. At the same time, the Board points out that the above instances highlights the need for all field offices to ensure receipt of periodical reports from the implementing agencies and to review them and follow up to ensure better control and monitoring of programme implementation. The Board, therefore, recommends that UNHCR complies with this requirement.

Overhead costs of implementing partners

85. The Report of the Board of Auditors for the Year ending 31 December 1993 had pointed out the need to establish norms to regulate the overhead expenditure of implementing partners. In response, the Administration proposed to regulate the

overhead costs of implementing partners through amendments to the provisions of UNHCR Manual and through a Handbook circulated to them as a result of the Partnership in Action (PARINAC) process.

86. The Board noted that substantial variations in such costs still prevail. In Branch Office, Manila the Board noted that the average cost of delivery of benef per case load incurred by implementing partners was as high as $2, 231 as compar to other countries in the region such as Hong Kong ($960), Malaysia ($322) and Indonesia ($196). The Board noted that the major reason for the high overhead expenditure and support cost under this Branch Office was the high level of sala structure granted to the staff recruited for the projects by the implementing partners, as compared to their counterparts in the Government, even though the implementing agencies were instrumentalities of the Government. Moreover, the practice of recruiting such staff directly, instead of obtaining their services o secondment from State authorities, also necessitated payment of very high separat packages, which was three times more than the statutory minimum of 0.5 months pay for every year of completed service.

87. While accepting that the per capita costs of running UNHCR programmes in the Philippines were much higher than in other offices in the region, the Administrat stated that the high incidence of overhead costs incurred in 1993 and 1994 was du to certain inevitable payments incurred in closing the Batan camp. The Board considered that the additional financial obligation could have been avoided by proper planning and administrative control. The Administration acknowledged that control over the implementing partners by the Branch Office was inadequate and mo positive results could have been achieved if corrective measures were imposed earlier.

88. The Board noted the same trend in the Branch Office, Kuala Lumpur. In spite o the steep fall in case loads in the Sungie Basi Camp since 1992, there was no corresponding reduction in the overhead expenditure. Further, in the absence of a prescribed norms to regulate overhead costs, there were wide variations in respec of per caseload staff cost from project to project within the same country. The Administration informed the Board that it has been reviewing the staff costs to reduce them in line with the programme size and case load.

89. In the Branch Office, Tokyo, the expenditure per case load varied substantial from one implementing agency to another. For instance, the expenditure per case l in 1994 for one agency was four times more than the expenditure for another. In addition, in spite of the reduction in case load over the years, there was no commensurate decrease in expenditure per case load.

90. The Board considers that, in addition to the action already taken, UNHCR shou establish appropriate norms to regulate the overhead costs of implementing partne whenever such payments are unavoidable and monitor the same regularly.

Procurement

91. The Board reviewed the overall efficiency and economy of procurement systems and procedures both at UNHCR headquarters and field offices.

Annual Purchasing Plans

92. In its report for the year ending 31 December 1993, the Board had pointed out the need to strengthen the mechanism for ensuring timely preparation and submission of annual purchasing plans (APP). Although the Administration agreed with the advantages to be derived from APPs, they had dispensed with the requirement for field offices to submit APPs in view of the limited value to UNHCR of such reports. The Board pointed out that even with emergency purchases, a substantial portion relates to commonly used items. A detailed annual purchase plan would, therefore, assist in making purchases more competitive and economical.

93. The Board was pleased to note that the Administration has subsequently revised its stand and is developing APPs for four main commodities.

94. The Board will keep under review the effectiveness of the proposed system or internally establishing APPs for the most important commodities. Meanwhile, the Board suggests that while preparing the APPs, UNHCR should cover a wide range of commonly used articles. The Board also recommends associating in the exercise all major user-offices, for whom such large purchases are made.

Market survey

95. To ensure good value for money and avoid unrealistic budget estimation, it is important to collect, analyze and disseminate information regarding reliable sources of supply and price trend. The Board considers that the existing practice of circulating the price lists based on the prices being paid by the organizations does not meet the above need. The Administration agreed with the Board on the advantages of indicating the lead time required for procurement of each item, to help indentors improve purchase planning.

96. The Administration has agreed to take necessary action along the lines suggested by the Board. The Board will keep future developments under review.

Frame agreements

97. UNHCR entered into frame agreements for emergency purchases of blankets and kitchen sets with certain selected suppliers. Under these agreements, the suppliers were required to maintain a minimum specified stock ready for supply at a predetermined price for a period of one year. However, in their requests for quotations, UNHCR did not indicate the likely quantities to be purchased even though this was substantially in excess of the minimum stock level to be maintained. For example in one case, as against the specified reserve stock of 10,000 sets, the actual purchases for a period of nine months amounted to 549,140 sets valued at $7,139,584. In another case, as against the required stock level of 100,000 blankets, 2,140,000 blankets of value $8,430,934 were purchased over a period of nine months.

98. The Board pointed out that inclusion of the approximate likely quantities of purchases estimated on the basis of purchasing plans was likely to generate more

competitive bids. The Board advised the Administration that suitable provisi that effect should be included in requests for quotations, in consultation v legal counsel.

99. There were also examples where UNHCR did not use frame agreements wisely one case, even though a frame agreement existed, fresh quotations were invit 72,000 blankets. Furthermore, there appeared to be significant scope for establishing more frame agreements to cover frequent purchases. For example, raised 60 purchase orders for reinforced plastic tarpaulins worth $9,000,000 purchase orders for tents worth $5,343,000 with six suppliers on a repetitiv

100. UNHCR informed the Board that the recommendation to enlarge the scope agreements was very much in line with their own work plan. They also informe Board that they had entered into frame agreements for several additional fre purchases including computer workstations and generators. The Administration proposed to include estimated quantities in quotation requests after getting from legal council. The Board welcomes the action taken by UNHCR to enlarge scope of frame agreement and recommends that the system should be perfected detailed market surveys.

Publicity for invitations to tenders

101. In view of the need to attract maximum possible competitive offers for agreements, it would be appropriate to give wide publicity through advertise provided in the Financial Regulations. The Board pointed out that advertisem would facilitate the establishing of such agreements with a wider number of suppliers located in different geographical regions and help achieve more competitive prices.

102. The Administration was, however, of the view that advertisement of UNHC requirements was incompatible with the organizations need to obtain dependabl offers from suppliers who are certain to meet the minimum requirements throug delivery. They also felt that a much better control of the purchasing process be achieved by seeking to expand the range of its suppliers through sourcing missions and working with national trade bodies. The Administration agreed wi principle of decentralization of purchases, but had doubts about the timing o implementation.

103. The Board reiterates its comments regarding the need for maximum public invitations to bid. The Board also recommends that once the frame agreements approved by UNHCR headquarters, field offices should be authorized to purchas requirements against them, subject to budgetary and quantity restrictions.

Vendor Performance Evaluation

104. Although the computerized purchasing system contained a facility for ve rating, it had never been used since there were difficulties in establishing necessary criteria. Although there was no vendor rating, UNHCR repeatedly pla quotation requests and purchase orders with certain suppliers, while there we other suppliers who were not being invited to bid. In one case, a supplier wa

selected on the basis of ascribed quality and record of performance, even though he was the fifth lowest bidder and the purchase file contained an adverse report against him.

105. The Administration clarified that although there is no formal evaluation of suppliers, the staff concerned were familiar with the performance of the various suppliers. The Administration also confirmed that the vendor data base was being reviewed and updated, and that this exercise would be repeated every six months.

106. The Board is of the view that vendor performance evaluation and vendor rating is essential to a sound purchasing strategy. The Board, therefore, recommends that the Administration should establish transparent procedures for regular vendor evaluation and elimination of unsatisfactory suppliers from the vendor list.

Status of receiving reports

107. At UNHCR headquarters there were receiving reports for only 57 per cent of the 1,374 purchase orders raised as of September 1994. In the absence of receiving reports, accurate information on receipt and distribution to beneficiaries will not be available, and insurance and warranty claims cannot be claimed where appropriate. The Board, therefore, pointed out the need to expedite the issue and monitoring of receiving reports.

108. The Administration shared the Boards concern and advised that they were taking remedial steps and hoped that when the Supply Information Management System (SMIS) becomes fully operational, the position would further improve.

Procurement by field offices

Payment of demurrage charges

109. In the Branch Office, Mozambique, there was substantial delay in clearance of imported goods from ports, which resulted in avoidable payment of demurrage charges. During 1994, this amounted to $123,021. In one specific case, a consignment of 14 ambulance vehicles was detained for almost three months for want of duty exemption documents, which led to payment of demurrage charges of $13,700. Though the vehicles were cleared on a provisional basis, they could not be registered and put to use even after six months of imports.

110. The Board noted that the delays were caused *inter alia* by the belated preparation of customs clearance documents by the clearing agent and non-availability of duty exemption orders due to a restriction by the local authorities on the maximum duty-free import of vehicles. The Board recommends that the Administration should pursue the matter with the local authorities to get necessary approvals so that payments of demurrage charges could be avoided.

Injudicious award of contract by an implementing partner

111. Analysis of a contract for supply of prepared food in 1994 at Sungie Basi Camp under the Branch Office, Kuala Lumpur disclosed that the only two tenderers who

responded to the bids had both the same ownership and address. One of these bidders was the supplier for prepared food in two previous years and had offered to continu the supply for 1994 at RM 1.00 per packet as against the previous years rate of RM 0.92. The successful bidder of the contract secured the supply contract at RM 1.18 per packet which amounted to an increase of 28 per cent over the previous years rate. This resulted in payment of an additional amount of $166,142 over what was voluntarily offered by the previous contractor. In the same camp, items such as rice, drugs and medicines worth RM 1,403,999 ($552,756) were purchased without calling for tenders.

112. The Board recommends that all implementing agencies should be directed to follow competitive bidding procedures.

Inventory management

113. The total inventory of assets of UNHCR is estimated at $300 million and consists of a large number of items dispersed over 128 countries. UNHCR headquarter had not received reports on the status of non-expendable properties from several field offices as at 31 December 1994. In many cases, physical verification reports due from field offices were either not received or received late. There were also discrepancies in stock account including that of motor vehicles, and inadequate follow-up action to locate the missing items.

114. In one case, against 99 items valued at $454,846 as per headquarters records, the field office had acknowledged only 36 items valued at $36,409. In the case of the field office in Ethiopia, 132 items including air-conditioners and furniture purchased in 1992 were found to have been assigned zero value in the property accounts.

115. There were weaknesses in property management at field offices audited by the Board. For example, in the Branch Office, Kuala Lumpur, an implementing partner had not submitted any list of inventory from 1989 onwards, except for a provisional lis sent in September 1994. Many items, including four vehicles, electronic items and office equipment, were lying idle, and approval of the Headquarters Property Survey Board had not been obtained before disposing of ten vehicles and donating one vehicle to an implementing partner.

116. In the Branch Office, Mozambique, inventory records were not maintained in accordance with Manual provisions nor was there any annual physical check of the inventory list issued by Headquarters. In addition, two implementing partners had purchased non-expendable property for $194,101.00 directly out of UNHCR funds, but had not submitted any report to the Branch Office, Mozambique.

117. In the Branch Office, Luanda, there were discrepancies in the stock accounts of medicines and the details given in the UNHCR loss reports differed substantially from the report of loss sent by an implementing agency. In addition, there was no evidence of any physical verification of properties listed in the computerized list sent by Headquarters. Similar discrepancies also existed in the stock registers maintained by an implementing agency under Branch Office, Manila.

118. The Board considers that the system of property management in UNHCR is weak and inefficient. The Administration agreed that there were a number of deficiencies in the existing asset management and control arrangements, and assured the Board that these would be addressed by effective implementation of new asset management software.

119. The Board welcomes these assurances, but considers it essential that the field staff and the implementing partners are made aware of the need to be methodical in maintenance of stock records of properties and in carrying out periodical physical verification. The Board also noted that the new asset management system is expected to be operational by late 1995, but the existing system, which was updated only up to September 1994, had since been discontinued with the result that there was virtually no inventory control in this period. The Board recommends that measures should be taken to fill the gap and to ensure proper tracking of inventory during this interim period so that the new system, when introduced, will be complete in all respects.

Management of Vehicles

120. The Branch Office, Manila, together with its implementing partners maintained a fleet of 110 vehicles, including a number of unserviceable motor vehicles, to cater to a refugee population of 1,800. The Board considers this to be unusually high. Although UNHCR had reportedly authorized the implementing agency to utilize only 28 vehicles, the actual deployment was substantially more. Some of the vehicles were donated through bilateral arrangements by other governments. The Board considers that UNHCR should have reviewed the actual requirement of vehicles periodically and restricted the allotment of vehicles from its own stock. The Administration has assured the Board that a complete inventory of all vehicles is being compiled.

121. The Branch Office, Manila, also did not maintain proper inventory of vehicles, information on discrepancies in the vehicle count and trip-sheets and did not register some vehicles with transport authorities.

122. In addition, an implementing agency under the same office had used UNHCR funds to purchase raffle tickets which incidentally won a car which was not taken into the inventory. The Administration is aware of the irregularity and has taken the car into custody to guard against possible misuse and disposal.

123. In the Branch Office, Luanda, the inventory list was not complete and did not include a number of available vehicles at the station. The Board also noted that vehicles which had been written off from inventory, reportedly for cannibalization, were still available as part of the actual physical stock. Further, monthly control sheets of vehicles were not being written up and information on petrol consumption and expenditures on repairs and maintenance was not being maintained and reviewed regularly. Management confirmed that remedial steps have been taken.

124. The Board recommends that the Administration should establish effective control over utilization of vehicles by all implementing partners. UNHCR should also ensure that implementing partners update inventory data on vehicles and maintain

trip sheets and monthly control sheets properly so that expenditures on fuel and repairs and maintenance can be regularly scrutinized.

Human Resources Management

Training

125. In response to the recommendations of the Board during the previous year, the Administration had advised that UNHCR had undertaken a Career Management System project to revise many aspects of its human resources management, with an enhanced and enlarged training service. The Administration had also agreed with the recommendation of the Board that the Staff Development Section needs to be strengthened and that its programmes need to be evaluated and updated.

126. The Board, however, noted that there was a drop in the actual performance during the 1994 in regard to training activities. Compared to 497 training programmes planned for 1993, only 201 courses were planned for 1994. Of this number, 167 courses were actually delivered with only 69 per cent of the targeted number of participants having actually been covered.

127. At the Branch Office, Kuala Lumpur, the training programmes held by that office covered subjects such as organizational behaviour and general management. In addition to these, the Board recommended that the programmes should also include topics on financial regulations, budgeting and programme management which will have a closer bearing on the actual tasks assigned to the staff.

128. The Administration informed the Board that the volume of training envisaged could not be delivered due to management problems. The Administration further stated there were deficiencies in management information on training activities and confirmed that they were planning to resolve this through the development of a computerized information system.

129. The Board welcomes the measures being taken to improve the quality of training and recommends that the Administration should increase the number of programmes and coverage of participants during the current year and should also enlarge the course contents to cover topics closely related to the job assignments of the staff at various levels. Further, the Board recommends that a larger share of the available training slots should be earmarked for training of the personnel of major implementing partners to improve their understanding of UNHCR financial procedures and rules on programme management.

Consultancy Services

130. UNHCR Headquarters entered into 62 contracts with 49 individual consultants at a total cost of $318,304 during 1994. Based on a sample analysis, the Administration estimated that 46 per cent of the requests from heads of divisions for approval of appointment or extensions of contracts of consultants were received ex post facto, necessitating retrospective regularization.

131. A random check of about 10 per cent of the total number of 363 appointments

of consultants made for the whole of UNHCR in 1994, revealed the following irregularities:-

(a) Nine consultants were appointed and/or re-appointed retrospectively;

(b) In two cases, consultants were appointed to regular assignments of the posts of Secretary and Librarian;

(c) In two other similar cases, concerning appointments as a Senior Secretary and an Honorary Correspondent, the terms of reference of the contracts were not available on record;

(d) Remuneration was paid to four consultants on completion of their contracts, without obtaining any report on their satisfactory performance;

(e) Appointment of one consultant on a contract extended beyond the duration of the project, itself; and,

(f) In a number of cases, the consultancy contracts were being continued, without any break, for periods ranging from 18 to 48 months. In some cases, no clear reasons were given for extensions of the consultancy.

132. The Board's review of consultants' appointment in the field offices disclosed the following:-

(a) In the Branch Office, Kuala Lumpur, ten legal consultants were continuously engaged for more than 11 months at a time without the mandatory break and were being granted extensions automatically. Six such consultants worked for 20 to 23 months continuously. Moreover, even though such appointments were based on a norm of five cases per day or ten cases per week at appeal stage for each consultant, there was no system of evaluating the work against the standards.

(b) Three legal consultants appointed by Branch Office, Manila worked for two or three years continuously, but there was no system of evaluating their outputs.

(c) In Branch Office, Mozambique, the records maintained by the office did not establish the justification and need for appointment of the consultants, but only contained certain job descriptions made on the basis of the applications of the consultants themselves. Further, even though extensions were granted to some of them, performance evaluation reports were not on record. In addition, a former staff member who was made to separate from service on account of lack of integrity was later appointed on a short-term consultancy.

(d) In the Branch Office, Bonn two consultants appointed on short-term contracts were ineligible for the appointments under UNHCR regulations since they did not possess valid residence/work permits.

133. The Board recommends that retrospective appointments and extensions of appointments of consultants should not be made except under exceptional circumstances and without approval at an appropriate senior level. The Board

suggests that the Administration should issue instructions to heads of divisions an field offices in this regard and should monitor their implementation of the procedures. Moreover, the performance of consultants should be evaluated at the end of each contract period against stipulated outputs and any extension of service or re-appointments should be based entirely on such performance evaluation.

Travel Claims

134. The Board had pointed out in an interim audit of UNHCR Headquarters that more than 1,300 travel claims were pending settlement for over a month with some of them relating to journeys completed in 1993. The Board also pointed out instances where staff members submitted their travel adjustment claims after a lapse of 19 to 21 months. There were also cases where more than one advance was pending against the same staff member. The Administration had assured the Board that a comprehensive review of Headquarters and extra regional travel was under completion and that new procedures were being established for decentralization.

135. The Board's subsequent review showed that the deficiencies persisted. For instance, a test check of the claims revealed that in some cases travel authorizations were issued over 15 days after commencement of the journey. Delays in the submission of claims and settlement of advances by travellers continued to exist. The Board noted that 401 cases in Headquarters and 873 cases in the field offices reflected delays of over a month in submission of travel claims.

136. The Board agrees with the Administration that delays in issue of sanctions and processing of travel claims are a reflection of an inefficient system and recommends that the existing rules should be enforced more rigorously. The Board also suggests that normally no second travel advance should be granted to a staff member/consultant unless adjustment claims for the earlier advance have been submitted.

Revenue-producing activities

137. As a part of the public awareness campaign, sales of souvenirs and other items are effected through the Public Information (PI) shops located at Headquarters and in over 100 different field offices. The Board noted that there were no guidelines for fixing of prices, and there was an absence of date on non-moving and slow-moving items. In addition, no periodicity for physical verification had been established and monthly reports due from the field offices were not received regularly.

138. The Administration informed the Board that many of the shortcomings had already been addressed and that pricing and stock control and reporting arrangements would be further developed using the facilities of the new computerized recording and point of sale equipment. The Administration also agreed that reporting and recovery of dues from the field remained an ongoing issue.

139. The Board considers that UNHCR needs to address the absence of any proper systems and guidelines for purchase, pricing and physical verification and the omission to collect and consolidate the accounts to ensure a proper accounting and

reporting system. The Board, therefore, recommends that the Administration should review the procedure without further delay and prepare the consolidated accounts and profit and loss accounts/balance sheet within a specified time schedule. They should also develop guidelines to regulate the various aspects of the activity expeditiously and ensure that they are implemented by all PI shops in the organization.

Internal Audit

140. The Board noted during the interim audit of Headquarters office that the Administration was slow to respond to the observations and recommendations of Internal Audit. For example, Audit and Management Consulting Division (AMCD) had issued 49 audit communications in 1993 and 43 audit communications in 1994. However, by November 1994, the Administration had not responded in respect of 19 audit communications issued in 1993 and 37 issued in 1994. The Board estimated that the Administration's responses for the Internal Audit reports relating to 1993 were overdue by 10 to 19 months and for those of 1994 by up to eight months. The Board also noted that AMCD had suggested recoveries in the amount of $1,828,110 in eight cases for which confirmation had not been received.

141. The Board was pleased to note that the Administration had since reactivated the Audit Committee and that it proposed to reduce the overall response time to three months by mid 1995. The Administration, however, informed the Board that there was no regular mechanism to identify, follow-up and report on the recoveries arising from audit findings other than through the normal accounting process.

142. The Board recommends that UNHCR take concerted follow-up action to improve the timeliness of responses to audit communications. An appropriate reporting system should also be devised to ensure that potential recoveries identified in an audit are actually made.

Cases of fraud and presumptive fraud

143. The Board was informed that during the year one case of fraud had been noticed in the field office in Cyprus. The fraud was reportedly committed by a staff member on three difference occasions involving a total amount of $1,650. On detection of the fraud, the staff member was separated from service by summary dismissal.

Acknowledgement

144. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the High Commissioner and her officers their staff.

Codanda Ganapathi SOMIAH
Comptroller and Auditor General of India

Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

28 June 1995

Osei Tutu PREMPEH
Auditor-General of Ghana

ANNEX

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the period ended 31 December 1993 a/

I. RECOMMENDATION 9 (a)

1. In addition to providing guidelines and better tools for registration of refugees, conditions conductive to organizing the registration should be created in concert with the host governments and main implementing partners in order to ensure the delivery of benefits to genuine refugees, thereby avoiding wastage and leakage of resources.

A. Measures taken by the Administration

2. A computerized registration system has been made available to a number of field operations and a roster of registration experts has been established at the Headquarters. A regional training workshop was held in Nairobi, Kenya.

3. Other actions taken include issue of UNHCR Registration Guidelines, creation of a post of Regional Registration Officer in Nairobi and implementation of the new approach to registration in Kenya and United Republic of Tanzania.

B. Comments of the Board

4. The Board noted that a fair amount of progress has been achieved. UNHCR registration guidelines entitled "Registration - a practical guide for field staff", issued in May 1994 is a comprehensive document. However, compliance by the field offices has to be ensured by constant follow-up and monitoring since as verified during the audit of field offices, the system of assessment of refugees population is still deficient.

II. RECOMMENDATION 9 (b)

5. Steps should be taken to contain within a reasonable limit both the direct and indirect staff costs and the administrative expenditures relating to UNHCR programmes. In particular, norms should be established to regulate the overheads costs of implementing partners.

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a/ Official Records of the General Assembly, Forty-ninth session, Supplement No. 5E/A/49/Add 15), Section I, paragraph 9

A. Measures taken by the Administration

6. Functional categorization of posts have been completed. The staffing levels and the corresponding support costs are reviewed as an integral part of the review of programmes. Chapter 4 of the UNHCR Manual was amended in September 1994. A draft version of a Handbook, incorporating the same principles has been circulated to the implementing partners for comments.

B. Comments of the Board

7. The audit of the field offices during the year has disclosed that the overhead costs of implementing partners continued to be excessive.

III RECOMMENDATION 9 (c)

8. Greater emphasis should be laid on imparting necessary training to the implementing agencies and on undertaking effective physical and financial monitoring visits to an evaluation of projects by, UNHCR field offices, to overcome the deficiencies in project implementation.

A. Measures taken by the Administration

9. Instructions were issued to field offices in July 1994 requesting them to budget for protection, programme management and certain other types of training for non-UNHCR staff. UNHCR's Programme Management training course has been revised and implemented in conformity with the new Programme Management Framework.

B. Comments of the Board

10. Training activities did not take off as envisaged and the achievement was even lesser than the previous year. This has been commented in the present report.

IV RECOMMENDATION 9 (d)

11. In order to ensure prompt signing of project agreements and smooth implementation of projects, there should be greater involvement of implementing partners in project formulation.

A. Measures taken by the Administration

12. Field offices were urged to undertake annual strategic planning exercises involving implementing partners, to formulate strategies for phased implementation and to set the objectives, parameters and priorities of various components of the Country Operations Plan.

B. Comments of the Board

13. Delays in receipt of Letters of Instruction (LOIs) and signing of agreements continued to persist.

V. RECOMMENDATION 9 (e)

14. The propriety of the peculiar arrangement with an implementing partner for staff and equipment support for the field office in Hong Kong, should be examined in the context of the need for control over staffing and acquisition of non-expendable items, and a more effective and transparent alternative adopted. This examination should also cover such arrangements elsewhere.

A. Measures taken by the Administration

15. The rationale for such arrangements was to avoid high expenses of international staff. The matter is being reviewed systematically and significant reductions will be effected in 1994 and the arrangement will be phased out by end of 1995.

B. Comments of the Board

16. The Administration is yet to furnish the details of reduction in staff effected in 1995.

VI RECOMMENDATION 9 (f)

17. Appropriate language versions of important manuals and guides should be available in the various regions where UNHCR operates.

A. Measures taken by the Administration

18. Remedial action has been taken in accordance with the recommendation.

B. Comments of the Board

19. There was no adequate evidence of the action taken. This will be pursued.

VII RECOMMENDATION 9 (g)

20. In future, engagement of personnel for regular work of UNHCR should be limited to the authorized level of posts and effective staffing control should be exercised. The proposed comprehensive recruitment plan should be established without further delay.

A. Measures taken by the Administration

21. Under the concept of emergency preparedness and response, emergency teams would be deployed immediately to respond to early critical needs pending the creation of regular posts. Guidelines for recruitment have been established to improve the geographical and gender balance of UNHCR staff. Larger field offices have been delegated more authority to establish local appointment committees for General Service staff.

B. Comments of the Board

22. In spite of the above, engagement of consultants for regular work was noticed during the current audit also.

VIII RECOMMENDATION 9 (h)

23. The Training Section of the UNHCR Headquarters should be qualitatively strengthened to effectively plan, implement and evaluate the training programme consistent with the changing needs and adequate resources should be made available for the programme.

A. Measures taken by the Administration

24. A career management system project has been undertaken with an enhanced and enlarged training service as an essential component.

B. Comments of the Board

25. There was a decline in the achievements during 1994.

IX RECOMMENDATION 9 (I)

26. Measures should be taken early to enable timely and cost-effective procurement of goods and service, including preparation of annual purchasing plans, decentralization of procurement as far as possible, standardization of prices at least in the short-run, greater use of late delivery penalty provision in purchase orders and effective monitoring of procurement made by implementing partners.

A. Measures taken by the Administration

27. It has been decided to establish purchasing plans for the most important commodities based on historical data and knowledge of future needs. Scope of frame agreements has been enlarged to cover more items. Quotation requests have been invited for standardization of telecommunication equipment.

B. Comments of the Board

28. The Board reviewed the progress of implementation at UNHCR headquarters and has included further comments in the current report. In the Board's view, purchase planning and the method of entering into frame agreements needs further refinement. The position will be reviewed further in the light of the recommendations included in the current report.

X. RECOMMENDATION 9 (j)

29. The proposed review of insurance arrangements should cover, inter alia, the condition governing the profit sharing commission, the system of filing declarations of goods in transit for insurance and the possibility of further reduction in the premiums paid.

A. Measures taken by the Administration

30. Insurance premiums have been brought down from 0.45 per cent to 0.225 per cent. The premiums will be paid on the aggregate value of shipment of the month, to reduce paperwork. The claim procedures have also been simplified.

B. Comments of the Board

31. The impact of the revised arrangements will be kept under review.

XI RECOMMENDATION 9 (k)

32. Measures to ensure the best return on investments and cash resources, including qualitatively strengthening the Treasury Section, should be expeditiously taken.

A. Measures taken by the Administration

33. Maximum investment levels for banks were increased to ensure higher returns. Cash balances and the number of non-interest bearing bank accounts were further reduced. A senior Finance Officer's post has been created.

B. Comments of the Board

34. The Board welcomes the measures already taken. Please also see the Board's recommendation in paragraph 41 of the current audit report.

XII RECOMMENDATION 9 (l)

35. Apart from reviewing the procedures on obligation of funds and the project spending process, the project budgeting techniques and procedures should be refined so that the budget could become a more effective tool for expenditure control.

A. Measures taken by the Administration

36. A review of the obligations and project spending process has been completed. Some fundamental changes will be made to the existing accounting processes and budgeting techniques in 1996.

B. Comments of the Board

37. The Board's review indicates that the position is still unsatisfactory and needs early remedial action.

AUDIT OPINION

We have examined the following appended financial statements numbered 1 to 4, properly identified, and schedules, numbered 1 to 10, Appendix 1 and the supporting explanatory notes of the voluntary funds administered by the United Nations High Commissioner for Refugees for the financial period ended 31 December 1994, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

As a result of our examination, we are of the opinion that the financial statements present fairly the financial position of the Organization as at 31 December 1994 and the results of the operators for the financial period then ended and that they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period; and that the transactions were in accordance with the Financial Regulations and legislative authority.

In accordance with our usual practice, we have issued a long form report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees as provided for in the Financial Regulations.

Codanda Ganapathi SOMIAH
Comptroller and Auditor
General of India

Sir John BOURN
Comptroller and Auditor
General of the United
Kingdom of Great Britain and
Northern Ireland

Osei Tutu PREMPEH
Auditor-General of Ghana